HART SCHAFFNER & MARX

Thirty-second Annual Report
November 30, 1942

HART SCHAFFNER & MARX

CHICAGO NEW YORK

New York, January 18, 1943

To the Board of Directors of
Hart Schaffner & Marx

The operating results of your Company for the fiscal year ended November 30, 1942 are set forth in the accompanying Balance Sheet and Profit and Loss statement. There is submitted also the report of your auditors, Messrs. Price, Waterhouse & Company. The parent company and subsidiaries show combined net income after all taxes of $1,233,660.42 as compared with $831,761.30 in 1941. The net income of the parent company was $711,056.27 which compares with $381,070.76 for the previous year. The adjustment of $522,604.15 in the reserve against investments reflects profits of subsidiary companies. The corresponding adjustment in 1941 was $450,690.54.

During the period 1930-1933 when losses were being sustained by the subsidiaries, reserves were set up against these investments. In subsequent years, as a result of profitable operations, these reserves have been reduced. The adjustment of the reserve, however, does not fully reflect the profit of these companies inasmuch as in many instances the original carrying value of the investment has been restored. The parent company's portion of the net profits of all its subsidiaries was $813,870.08. Of this amount $522,604.15 represents the parent company's portion of the earnings of those subsidiaries in which the investment was impaired. The difference of $291,265.93 represents the parent company's equity in earnings of subsidiaries in which the investment was not impaired.

At the end of last year there was deducted from inventories the sum of $100,000 to constitute a special reserve against possible changes in inventory values. It appears advisable, in view of continuing uncertainties, to make further provision for possible contingencies. Out of the earnings of the year just ended, there was set aside the sum of $150,000 which together with the $100,000 previously provided now appears on the Balance Sheet as a Reserve for Contingencies in the amount of $250,000.

The investments in retail establishments located in a number of cities throughout the country have been beneficial to the Company in many respects. They have developed into important outlets for the Company's product. The successful operation of these establishments has been one of the factors that has permitted the Company to improve its product steadily and to offer increasingly better values to its customers.

Both the parent company and the subsidiaries showed gratifying increases in sales. Bank loans up to the end of the year continued at approximately the same level as last year but have since November 30 been reduced by $1,500,000. As of this date the indebtedness for borrowed money stands at $1,000,000.

A dividend of 50c per share was paid in June. An additional dividend of $1.50 per share, declared shortly after the end of the fiscal year and for that reason not shown as a liability on the Balance Sheet of November 30, was paid on December 23.

A general wave of consumer buying and a resultant demand for merchandise on the part of retailers stimulated shipments during the early portion of the year. In subsequent months retailers have adopted a much more conservative attitude. Bookings for Spring 1943 are running substantially below last year. Fluctuations of this kind which are not uncommon in the apparel industry create merchandising risks and confront management with many problems.

The year just ended has been the most profitable year the Company has had since 1929. There can be no assurance, however, of a continuation of these profits. The steady increase in the number of men in the Armed Forces reduces the need for civilian clothing. We may expect an extension of the controls which are necessary in time of war and that these will inevitably have a depressing effect on business.

There are many factors, however, which enable the Company to look forward to the future with confidence. Our customers in most instances operate the leading men's wear establishments in their respective communities. Our close relationship with these customers which is of long standing is an element of stability. The employees of the Company have demonstrated their ability and their loyalty. There is every reason to expect that with respect to its general position in the industry the Company will continue to make progress.

Over 90% of the employees of the Company are participating in the Treasury's voluntary payroll deduction plan for the purchase of War Bonds. Included under liabilities shown on the Balance Sheet is the sum of $41,326.27 which is being accumulated for individual employees toward the purchase of bonds.

As in World War I, the Company is making uniforms for officers in the Army and Navy. In a desire to see to it that officers are able to obtain uniforms of good quality at attractive prices, the Army is procuring uniforms direct from a number of manufacturers and is distributing these uniforms through the Army Exchange Service. The Company is devoting a portion of its facilities to the production of these uniforms and takes pride in the fact that it is making a contribution to the war effort.

MEYER KESTNBAUM
President

HART SCHAFF

A New York

BALANCE SHEET—

Assets

Current Assets		
Cash	$ 910,012.05	
Notes and accounts receivable (less reserves) and receivables due from subsidiaries covered by net quick assets	6,231,744.17	
Inventories of materials and finished and partly finished merchandise on hand and in transit, at cost or market whichever is lower for current season's merchandise and estimated realizable values for past seasons' merchandise	3,778,911.88	
Sundry accounts—including $8,281.84 due from employees	42,124.61	$10,962,792.71
Investments In and Non-Current Advances to Subsidiaries and Others (Less reserves), of which $2,487,767.06 is represented by net quick assets of such subsidiaries		2,555,354.17
Company's Capital Stock		
Held in Treasury		
4,930 shares at par	$ 98,600.00	
7,757 shares at cost	186,996.55	285,596.55
Shop Equipment and Fixtures, and Office Furniture		
At cost	$ 1,269,860.34	
Less—Depreciation reserve	988,675.88	281,184.46
Deferred Charges		
Prepaid factory rentals, prepaid insurance, supplies, etc.		112,594.30
Goodwill, Trade Names and Trade Marks		
At record value		1.00
		$14,197,523.19

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Corporation

NOVEMBER 30, 1942

Liabilities

Current Liabilities		
Notes payable to banks	$ 2,500,000.00	
Accounts payable	151,521.08	
Liability for goods in transit	45,891.11	
Accrued salaries and wages	198,698.59	
Accrued Federal, state and local taxes (less cash of $36,540.18 deposited in escrow to cover payment of real estate taxes)	696,736.91	$ 3,592,847.69
Reserve for Contingencies		
(See comment in president's letter to stockholders)		250,000.00
Capital Stock		
Common—Authorized and issued—150,000 shares—par value $20.00 each		3,000,000.00
Capital Surplus		1,803,712.61
Earned Surplus		
Per accompanying statement		5,550,962.89
		$14,197,523.19

HART SCHAFFNER & MARX

A New York Corporation

STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 1942

Profit of parent company for the year	
After deducting all expenses, provision for Federal income taxes and charge for variation in inter-company profit in inventories of certain subsidiaries and after appropriating out of earnings $150,000.00 for contingencies (See comment in president's letter to stockholders)	$ 711,056.27
Adjustment of reserves	
Against investment in certain subsidiaries in respect of the increase in net worth of these companies for the year	522,604.15
(*Note:* The parent company's portion of net profits of all its subsidiaries was $813,870.08)	
Total, carried to earned surplus	$1,233,660.42
Earned surplus at November 30, 1941	4,385,958.97
	$5,619,619.39
Less—Dividends paid—50 cents per share	68,656.50
(*Note*: A dividend of $1.50 per share was declared on December 12, 1942 and paid on Decmber 23, 1942)	
Earned surplus at November 30, 1942	$5,550,962.89

REPORT OF ACCOUNTANTS

To the Stockholders of
Hart Schaffner & Marx

We have examined the balance sheet of Hart Schaffner & Marx as of November 30, 1942, and the statement of profit and loss and earned surplus for the fiscal year then ended. In connection therewith, we have reviewed the system of internal accounting control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included all procedures which we considered necessary.

The financial statements of five of the more important subsidiaries were examined by us as at July 31, 1942 and the books and records of all but two of the subsidiaries were audited during the year by internal auditors employed by the company. We have been furnished with financial statements of all of the subsidiaries as at November 30, 1942, certified by officers thereof, supported by certificates covering bank balances, particulars of receivables and inventories, and these statements and other supporting data were subjected to our review. Based on such review, supplemented by inquiries we have made, we are of the opinion, that the accounting procedures followed by those subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were examined by us. The financial statements of one of the subsidiaries, whose books and records were not examined during the year by the internal auditors, were examined by us as at January 31, 1942. The investments in and non-current advances to subsidiaries are stated in the balance sheet at cost of the investments, plus amount of advances, less reserves provided in respect of reductions in the net worth of certain subsidiaries having losses from the date of acquisition of such investments to November 30, 1942. The portion of the indebtedness of subsidiaries to their parent company which is represented by net quick assets of such subsidiaries, is included in receivables under current assets.

In our opinion, the accompanying balance sheet and related statement of profit and loss and earned surplus present fairly the position of Hart Schaffner & Marx at November 30, 1942 and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

CHICAGO,
January 16, 1943.